Mutual Limited

Morning Mutterings: Monday 9 August, 2021

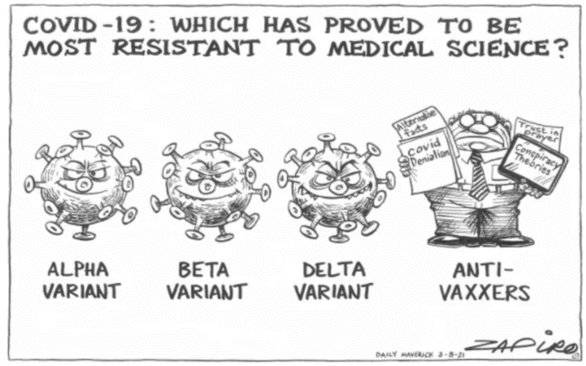
Quote of the day…

"It's just a job, birds fly, waves pound the sand, I beat people up…" – ***Muhammad Ali***

Overview…"labours good, what about inflation…?"

- The "*bad news is good news*" logic that has prevailed since the pandemic reared its insidious head still has some legs given market moves over the week. Despite the Fed seemingly closer to ending elements of its stimulus program (tapering), rising concerns about COVID Delta variants and nearly a third of US companies slashing forward guidance, stocks still hit record highs on Friday. European indices also hit new highs, as did our own little index, which outperformed its Northern Hemisphere brethren. Credit spreads were marginally mixed on the day if I can say that, and about the same over the week. Commodities, including oil, were weaker and gold remains persona non grata.
- Talking heads… "*the strong US payrolls release is certainly making more credible both guidance toward a taper announcement later this year and an eventual transition to rate hikes…this is clearly supportive of higher yields, particularly real yields, but the resilient bid for duration seen through the last few months, especially against a less than ideal virus backdrop, leaves us reticent to call a bottom*"…if not yet, we can't be far off. Having said that, I'm certainly not advocating for rates to scream higher – too many macro headwinds, but they will likely rise as policy settings normalise, i.e. tapering and eventual rate hikes.
- For what it's worth, Goldman Sachs lowered their year-end forecast for US treasuries (yields), saying they appear to have overshot to the downside, and will likely reverse in the coming months as Delta variant concerns fade (will they?) and economic data remain relatively strong. The bank sees 10-year yields finishing 2021 at 1.6%, down from prior forecasts of 1.9%, but still +30 bps higher than prevailing levels.
- While last week was all about US labour markets (in an offshore sense), US inflation is in focus this week (Wednesday), with consensus for July core CPI to slow slightly vs the June print. Any material miss to the upside will likely put a rocket under bond yields, signalling perhaps that inflation isn't as transitory as first thought. Locally, a quiet week with NAB Business Conditions and WBC Consumer Confidence surveys.

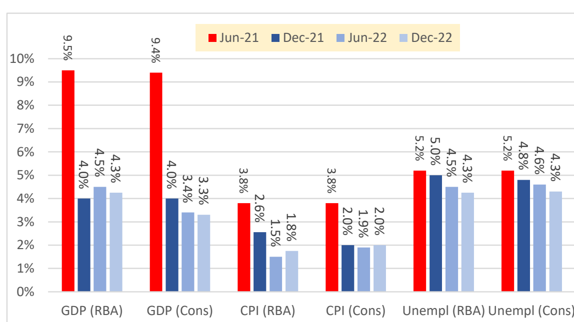
"The Enemy…"



Source: www.theweek.com

	At a glance….	*Last*	*1D*	*7D*	*30D*
EQUITIES	ASX 200	7,538	0.36%	1.97%	2.68%
	DOW	35,209	0.41%	0.78%	2.29%
	S&P 500	4,437	0.17%	0.94%	2.68%
	NASDAQ	14,836	-0.40%	1.11%	1.90%
	STOXX	470	0.00%	1.78%	4.07%
CREDIT	AusBond FRN (bps)	30.7	-0.04	-2.18	-4.26
	AusBond Fixed (bps)	55.6	-0.26	0.09	-1.49
	US Fin (OAS, bps)	70.2	0.18	1.29	0.08
	EU Fin (OAS, bps)	28.8	2.22	0.59	-9.06
BONDS	ACGB (10Y, %)	1.190	0.03	0.01	-0.13
	ACGB (3Y, %)	0.299	0.03	0.06	-0.05
	UST (10Y, %)	1.297	0.07	0.07	0.00
	UST (2Y, %)	0.208	0.01	0.02	0.01
FX & CMDTY	BB Commodities	94.69	-0.65%	-1.65%	2.28%
	Oil (Brent, $/bbl)	70.70	-0.83%	-7.38%	-4.61%
	Gold ($/oz)	1,763	-2.29%	-2.82%	-2.21%
	AUDUSD	0.74	-0.66%	0.16%	-0.98%
	AUDEUR	0.63	1.03%	1.03%	-0.33%

Chart du jour…updated RBA forecasts



Source: RBA, Mutual Limited

Details….

- ***Offshore Stocks*** – old school stocks gained on Friday, while the NASDAQ (-0.4%) was the only index to end the day on a soggy note. All core indices gained on the week. On Friday, 63% of stocks gained in the S&P 500, with Financials (+2.0%), Industrials (+1.1%) and Energy (+1.0%) leading from the front. At the other end of the tables, Discretionary (-0.7%), REITS (-0.2%), Tech (-0.1%) were the only sectors in the red. Despite Delta infection concerns, expectations of imminent tapering from the Fed, and peak earnings growth behind us, core indices continue to print all-time record highs. Risk of a correction, likely a modest one, remains elevated. An observation on the S&P 500 over the past three months – as depicted in the below chart - at the middle of May (-4.0%), June (-2.1%), and July (-2.8%), we've witnessed a dip in the index, down toward the 50-day average, with a prompt rebound. Will recent history repeat itself this month? A miss to the high side in US CPI data could be the catalyst.

- ***Local stocks*** – modest gains in Friday, but a solid week for the ASX 200, outperforming global peer indices. On Friday, we saw 63% of the stocks in the ASX 200 advance with the index gaining +0.4%. Strong gains in Tech (+2.1%), Industrials (+1.1%) and Energy (+1.0%) drove the broader index, while Materials (-1.0%), Utilities (-0.5%) and Telcos (-0.1%) were the only sectors to fall on the day. Over the week, the index gained +2.0%, with Tech (+13.7%), Financials (+3.1%) and Staples (+2.9%) leading. Only Materials (-1.9%) failed to gain in the week. Futures are pointing to modest gains on the open this morning.

(Source: Bloomberg)

- *Offshore Credit* – no issuance in US IG markets on Friday. Consistent sales each day boosted weekly volume to US$32.5bn, higher than the top end of estimates. This is the second week in a row where actual volumes exceeded forecasts. Estimates for this week stand at US$25bn to US$30bn, and dealers say Monday may see borrower's number in double digits, which could put pressure on secondary spreads. In secondary markets US IG spreads drifted wider on the week, +1 bps for financials and +3 bps for corporates. In EU IG markets, spreads were largely unchanged. Little movement in HY spreads on the week.

- *Local Credit* – per traders comments…"*spreads unchanged. Very light flow, modest selling from an offshore systematic real money account. We remain happy to provide liquidity on both sides of the spread, we are running historically low inventories in majors.*" Major bank spreads closed unchanged on the day, but have had a decent tightening run over the past month, which we're not surprised about. Technicals remain extremely strong, but spreads also very tight. Optically they look expensive, but in a historical context they can stay 'extensive' for extended periods of time. In this regard, between 2005 and 2007, the eve of the financial crisis, spreads stayed in a very tight +5 – 10 bps trading range for over two years, only breaking out of that range as the crisis unfolded. Lowering the eyes' a bit, since the start of the NSW lockdown, local credit spreads are -1 bp tighter in fixed and -5 bps tighter in FRN's, the latter mainly on the back of major bank tightening.

- *Bonds & Rates* – the seemingly relentless rally in US treasuries paused last week, with 10-year yields notching their first weekly advance since June. Let's assume yields have bottomed (maybe), ongoing uncertainties about the Delta variant, inflation and Fed policy mean it's far from certain that they will continue to climb. Recent spikes in COVID infections globally have supported a bid in Treasuries and other haven assets even as data exhibited signs of resilience in growth, dragging 10-year yields to almost six-month lows, of just under 1.13% for US treasuries (10Y) and similar levels for ACGB 10's. Fed speak around mid-week put a halt to the bid, with Fed Vice Chairman Clarida stating likely timeframes for tapering and hiking, strongly implying they will happen sooner rather than later. These comments and then stronger US payrolls boosted yields, +8 bps on the week in the US 10's, which also saw ACGB's +8 bps higher. This week, "*the consumer-price inflation report and bond auctions will provide key tests for the market, as will ongoing developments around COVID, but the major focus for most traders is likely to be the Fed conference at Jackson Hole later this month*" (Bloomberg).

Australia | Browse | 16:44:38 | Treasury & Money Markets

Money Rates		
RBA Cash Target	0.10	+0.00
RBA O/N Cash	0.03	+0.00
SFE IB 30 Day Future		
IB1	99.975	+0.000
IB2	99.975	+0.000
SFE 90 Day Bank Bill		
IR1	99.990	+0.010
IR2	99.970	+0.000
IR3	99.940	+0.010
IR4	99.860	+0.000
SFE Bond Future		
YM1	99.680	-0.020
YM2	99.560	-0.030
XM1	98.815	-0.035
XM2	98.775	-0.035
LTY1	98.200	-0.025
LTY2	98.200	-0.025
3-10S Spread		
ABFS	0.855	+0.010

Bank Bills Live		
1M	0.00	-0.02
2M	0.02	+0.00
3M	0.02	+0.00
4M	0.05	+0.00
5M	0.06	+0.00
6M	0.04	-0.01

BBSW		
1M	0.0077	-0.0104
2M	0.0097	-0.0003
3M	0.0205	+0.0031
4M	0.0275	-0.0025
5M	0.0400	+0.0000
6M	0.0500	+0.0000

BABs EOD		
1M	0.01	-0.01
2M	0.02	-0.02
3M	0.02	-0.02
4M	0.02	+0.00
5M	0.03	+0.00
6M	0.04	-0.01

OIS		
1M	0.03	+0.00
2M	0.03	+0.00
3M	0.02	+0.00
4M	0.03	+0.00
5M	0.02	+0.00
6M	0.02	+0.00

Basis vs USD		
1YR	-1.75	+0.00
2YR	2.38	+0.00
3YR	8.25	+0.00
5YR	16.75	+0.00
7YR	22.25	-0.13
10YR	27.88	-0.25

Govt Bonds		
1Y	0.051	+0.004
2Y	0.065	+0.006
3Y	0.309	+0.029
4Y	0.512	+0.028
5Y	0.637	+0.028
6Y	0.783	+0.028
7Y	0.896	+0.033
10Y	1.197	+0.034
12Y	1.252	+0.034
15Y	1.591	+0.023
20Y	1.871	+0.022
30Y	2.057	+0.021

Mid Swaps		
1Y	0.05	-0.01
2Y	0.23	+0.00
3Y	0.43	+0.02
4Y	0.62	+0.03
5Y	0.77	+0.03
6Y	0.91	+0.03
7Y	1.03	+0.03
10Y	1.31	+0.02
12Y	1.45	+0.02
15Y	1.59	+0.01
20Y	1.71	+0.02
25Y	1.73	+0.02
30Y	1.71	+0.03

S&P/ASX Indices		
200	7538.40	+0.36%
SPI FUT	7445.00	+0.34%
ALLORDS	7806.50	+0.35%
SML ORDS	3464.70	+0.52%
200 PROP	1599.60	+0.62%
Gold		
GOLD USD	1800.77	-3.64
GOLD AUD	2436.25	-0.90

Spot FOREX	
AUD	0.7392
EUR	1.1826
JPY	109.7900
CNY	6.4643
AUDEUR	0.6250
AUDGBP	0.5310
AUDNZD	1.0488
AUDCHF	0.6708

Global Indices		
S&P500	4429.10	+26.44
EU STOXX50	4161.08	+16.18
NIKKEI	27820.04	+91.92
SHANGHAI	3452.68	-13.87

Sov CDS/Markit Indices		
AUST SOV	14.88	+0.02
MARKIT ITRX	62.00	-0.83
MARKIT NA IG 5Y	49.63	-0.10
MARKIT ITRX EUR	46.17	-0.18

(Source: Bloomberg)

- *Offshore Macro* – US Non-Farm Payrolls, released last Friday night our time, was strong across the board. The economy added +943K positions through July vs an upwardly revised +938K in June. The July number was the highest since August 2020 and far better than consensus expectations (+870K). The unemployment rate dropped more than expected, to 5.4% from 5.9%. This week, the focus turns from labour to inflation, the other key focus of the Fed. CPI is due out on Tuesday, with consensus at +0.5% MoM vs +0.9% MoM last month, and +5.3% YoY vs +5.4% YoY last month.

- ***Local Macro*** – the RBA released its Statement of Monetary Policy ('SOMP') update on Friday. Borrowing some brief words from NAB…"*The SoMP confirmed that the RBA does not see the current spate of lockdowns as derailing the recovery, with the economy expected to bounce back quickly as has been the experience with previous outbreaks and associated lockdowns. The RBA sees a significant reduction in activity in the near term, but sees activity recover sharply thereafter. The SoMP updates the RBA's 2024 guidance for rate hikes, noting that "under the current central scenario for the economy [conditions for a rate hike] will not be until 2024." This scenario incorporates strong economic growth in 2022 and a lower unemployment track than previously, but the continuing forecast that wages and inflation will only pick up slowly in response*".